



BRUSSELS CINCINNATI CLEVELAND COLUMBUS DAYTON WASHINGTON, D.C.

June 28, 2001

**VIA HAND DELIVERY**

RECORDATION NO. **23533** FILED  
JUN 28 '01 3-39 PM  
TS  
SURFACE TRANSPORTATION BOARD

Honorable Vernon A. Williams  
Secretary  
Surface Transportation Board  
Washington, DC 20423

Dear Secretary Williams:

Enclosed for recordation, under the provisions of 49 U.S.C. § 11301(a) and the regulations promulgated thereunder, are executed counterparts of a Security Agreement (the "Security Agreement") dated as of November 1, 2000, between Flex Mexico Corp., a Delaware corporation (the "Borrower/Debtor"), and BTM Capital Corporation, a Delaware corporation (the "Lender/Secured Party"), with the participation of Flex Leasing Corporation, a Delaware corporation (the "Depository"), a primary document not previously recorded.

The names and addresses of the parties to the enclosed document are as follows:

**BORROWER/DEBTOR:**

Flex Mexico Corp.  
234 Front Street, Suite 300  
San Francisco, CA 94111

**LENDER/SECURED PARTY:**

BTM Capital Corporation  
125 Summer Street, 5<sup>th</sup> Floor  
Boston, MA 02110

**DEPOSITARY:**

Flex Leasing Corporation  
234 Front Street, Suite 300  
San Francisco, CA 94111

Pursuant to the said Security Agreement, the Borrower/Debtor grants to the Lender/Secured Party a first-priority security interest in, among other things, the 100 newly-built high capacity box cars manufactured by National Steel Car Limited with road marks and reporting numbers: LW 50250 through LW 50349, as more particularly described in the said Security Agreement (the "Equipment"), and all of Borrower/Debtor's right, title and interest in, to and under that certain Schedule No. 1, dated November 1, 1999, to the Master Car Lease Agreement, dated as of November 1, 1999 between Borrower/Debtor, as lessor, and TFM S.A. de C.V., as lessee, a memorandum of which is being recorded concurrently herewith under Recordation No. 23534, and to all proceeds of such Lease. Please record under the instant number: "See Recordation No. 23534."

THOMPSON HINE LLP

1920 N Street, N.W.  
Suite 800  
Washington, D.C. 20036-1600

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Phone 202.331.8800

# THOMPSON HINE

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Honorable Vernon A. Williams  
Secretary, STB  
June 28, 2001  
Page 2

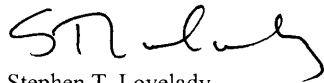
A short summary of the Security Agreement to appear in the STB Index is as follows:

Security Agreement dated as of November 1, 2000,  
between Flex Mexico Corp., as Borrower/Debtor, and  
BTM Capital Corporation, as Lender/Secured Party,  
with the participation of Flex Leasing Corporation, as  
Depositary, covering 100 newly-built box cars with the  
following road marks and reporting numbers: LW  
50250 through LW 50349, inclusive.

Enclosed is a remittance in the amount of \$56.00 for the required recording fees (\$28.00 for filing the Security Agreement and \$28.00 for the requested cross index reference).

Once the filing has been made, please return to bearer the stamped counterparts not needed for your files, together with the fee receipt, and the letter from the Secretary acknowledging the filing, and the extra copies of this letter of transmittal.

Very truly yours,



Stephen T. Lovelady  
*Attorney for purposes of this filing for  
Flex Mexico Corp., BTM Capital  
Corporation, and Flex Leasing Corporation*

Enclosures

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049885.02

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**SECURITY AGREEMENT**

dated as of November 1, 2000

between

**FLEX MEXICO CORP.,**  
as Borrower

and

**BTM CAPITAL CORPORATION,**  
as Lender

RECORDATION NO. **23533** FILED

**JUN 28 '01 3-39 PM**

**SURFACE TRANSPORTATION BOARD**

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## SECURITY AGREEMENT

THIS SECURITY AGREEMENT, dated as of November 1, 2000, is made by FLEX MEXICO CORP., a Delaware corporation (the "Borrower"), in favor of BTM CAPITAL CORPORATION, a Delaware corporation (the "Lender"), with the participation of Flex Leasing Corporation, a Delaware corporation, as the depository (the "Depository").

### WITNESSETH:

WHEREAS, the Borrower and the Lender are parties to the Loan Agreement, dated as of November 1, 2000 (as amended, supplemented or otherwise modified from time to time, the "Loan Agreement"); and

WHEREAS, pursuant to the Loan Agreement, the Lender has agreed to make a loan to the Borrower upon the terms and subject to the conditions set forth therein (the "Loan"), to be evidenced by the Note issued by the Borrower thereunder; it is a condition precedent to the obligation of the Lender to make the Loan to the Borrower under the Loan Agreement that the Borrower shall have executed and delivered this Security Agreement to the Lender.

NOW, THEREFORE, in consideration of the premises and to induce the Lender to enter into the Loan Agreement and make the Loan to the Borrower thereunder, the Borrower hereby agrees with the Lender as follows.

1. Defined Terms. For purposes hereof, the following terms shall have the following meanings.

"Affiliate": with respect to any Person, any other Person who, directly or indirectly, controls or is controlled by or is under common control with, such Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), with respect to any Person, means the direct or indirect possession of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

"Basic Agreements": the Loan Agreement, the Note, this Security Agreement, the Pledge Agreement and the Guaranty, together with all other documents from time to time issued or entered into pursuant to or in connection with any thereof.

"Canadian Rail Authority": the Registrar General of Canada.

"Car": any of the railcars comprising the Equipment.

"Closing Date": the date on which the Loan is made under the Loan Agreement.

"Code": means the Uniform Commercial Code as from time to time in effect in any applicable jurisdiction.

"Collateral": shall have the meaning assigned to it in Section 2 of this Security Agreement.

"Default": any "Default" under the Loan Agreement.

"Default Rate": the per annum rate of interest equal to the sum of 2% plus the Interest Rate.

"Equipment": 100 newly-built, 60'9", plate F, high capacity box cars, each with 286,000 lb gross rail load, double 8' sliding doors with 12'9" height, smooth floor and end-of-car cushioning, manufactured by the Manufacturer, and with a cost of \$73,759.91 per Car, with the following road marks and reporting numbers: LW 50250 through LW 50349.

"Event of Default": any "Event of Default" under the Loan Agreement.

"Event of Loss": an event with respect to a Car that requires payment of the Loss Value as to such Car as provided in the Lease.

"Excluded Payments": shall mean (i) indemnity payments paid or payable pursuant to the Lease to or in respect of the Borrower, its Affiliates, successors and permitted assigns and its directors, officers, employees, servants and agents; (ii) proceeds of public liability insurance in respect of the Equipment payable as a result of insurance claims made, or losses suffered, by the Borrower, which are payable directly to or in respect of the Borrower, its Affiliates, successors and permitted assigns and its directors, officers, employees, servants and agents, respectively, for its own account; (iii) proceeds of insurance maintained with respect to the Equipment by the Borrower or any Affiliate thereof for its own account or benefit; (iv) any interest that pursuant to the Basic Agreements may from time to time accrue in respect of any of the amounts described in clauses (i) through (iii) above; (v) the proceeds from the enforcement of any right to enforce the payment of any amount described in clauses (i) through (iii) above (provided that the rights referred to in this clause (v) shall not be deemed to include the exercise of any remedies provided for in the Lease other than the right to sue for specific performance of any covenant to make such payment or to sue for damages in respect of the breach of any such covenant); and (vi) any right to exercise any election or option or make any decision or determination, or to give or receive any notice, consent, waiver or approval, or to take any other action in respect of, but in each case, only to the extent relating to, any Excluded Payments (provided that the rights referred to in this clause (vi) shall not be deemed to include the exercise of any remedies provided for in the Lease other than the right to sue for specific performance of any covenant to make such payment or to sue for damages in respect of the breach of any such covenant).

"Governmental Authority": any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Guarantor": National Steel Car Ltd., a Canadian corporation.

"Guaranty": that certain Guaranty Agreement, dated as of even date herewith, executed by the Guarantor in favor of the Lender.

“Interest Rate”: as defined in the Loan Agreement.

“Lease”: Schedule No. 1, dated November 1, 1999, to the Master Car Lease Agreement, dated as of November 1, 1999 between the Borrower, as lessor, and the Lessee, as lessee, with respect to the Equipment.

“Lease Event of Default”: a default by the Lessee as specified in the Lease (except with respect to Section 9(e) of Schedule No. 1), provided, however, that as to any payments due under the Lease or the performance of any obligations under the Lease, a Lease Event of Default shall not occur until the expiration of 90 days following notice to the Lessee from the Borrower or the Lender of such payment or performance default.

“Lessee”: TFM, S.A. de C.V., a Mexican corporation.

“Manufacturer”: the Guarantor.

“Mexican Rail Authority”: the Mexican Ministry of Communication and Transportation and, for purposes of registration of documentation, the Mexican Railroad Registry.

“Note”: the note issued pursuant to the Loan Agreement, and any note or notes issued in exchange or replacement therefor pursuant to the provisions thereof.

“Obligations”: means the unpaid principal amount of, and interest on (including, without limitation, interest accruing after the maturity of the Loan and interest accruing after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Borrower and/or the Pledgor and/or the Guarantor, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) the Note and any and all other obligations and liabilities of the Borrower and/or the Pledgor and/or the Guarantor to the Lender or any Affiliate of the Lender providing an interest rate swap to the Borrower with respect to the Loan, whether direct or indirect, absolute or contingent, recourse or non-recourse, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, the Loan Agreement, the Note, this Security Agreement, the Guaranty, the Pledge Agreement or any other document made, delivered or given by the Borrower and/or the Pledgor and/or the Guarantor in connection therewith or herewith, whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses (including, without limitation, all reasonable fees and disbursements of counsel to the Lender that are required to be paid by the Borrower pursuant to the terms of the Loan Agreement) or otherwise.

“Person”: an individual, partnership, corporation, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

“Pledge Agreement”: that certain Pledge and Security Agreement, dated as of even date herewith, among the Borrower, the Pledgor and the Lender, as amended, supplemented or otherwise modified from time to time.

“Pledgor”: Flex Leasing Corporation, a Delaware corporation.

"Proceeds": shall have the meaning specified in the Code.

"Rental": the "Rent" and "Additional Rent" as defined in the Lease, any other amounts due from the Lessee to the Borrower under the Lease and any payment of interest as a result of the late payment of any of the foregoing required pursuant to the Lease, but excluding Excluded Payments.

"Security Agreement" or "Agreement": means this Security Agreement, as amended, supplemented or otherwise modified from time to time.

"Security Interest": any mortgage, pledge, hypothecation, assignment, deposit arrangement, right of possession or detention, right of setoff (but excluding any right of setoff, consolidation, merger or combination of accounts arising in favor of a bank by operation of law), encumbrance, lien (statutory or other), or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Code or comparable law of any jurisdiction in respect of any of the foregoing).

"STB": the Surface Transportation Board of the United States.

"United States": The United States of America.

2. Grant of Security Interest.

(a) Grant of Security Interest. As collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations, the Borrower hereby grants to the Lender a first priority security interest in all of the following property now owned or at any time hereafter acquired by the Borrower or in which the Borrower now has or at any time in the future may acquire any right, title or interest (collectively, the "Collateral"):

(1) The Equipment together with (a) any replacement substituted for any Car, (b) all parts of any Car, (c) all logs, manuals and data and inspection, modification and maintenance records maintained in respect of the Equipment, including, without limitation, all such logs, manuals, data and records required to be maintained by any applicable regulatory agency or body of any jurisdiction and (d) all insurance policies relating to the Equipment;

(2) All of the Borrower's right, title and interest in, to and under the Lease, including, but not limited to:

(a) any and all Rentals, insurance and condemnation proceeds, warranty payments, payments upon an Event of Loss and other moneys due or to become due, and any and all claims, rights, powers, remedies, title and interest of the Borrower in and to or under or arising out of the Lease (including, without limitation, all claims for damages or other sums arising upon the sale or other disposition of or loss of use of or requisition of title or use of the Equipment, parts and related equipment at any time subject to the Lease) and any and all credit support or collateral security of whatever type or description (whether in the nature of

cash, a guaranty, letter of credit, credit insurance, lien on or security interest in any property or otherwise) which the Borrower now or hereafter may hold to further assure or secure the obligations of the Lessee under the Lease,

(b) subject to the applicable provisions of the Loan Agreement and hereof, all rights, powers, privileges, remedies and other benefits of the Borrower under the Lease and all rights to make determinations, exercise options or elections, give or withhold consents, waivers and approvals, give notices and exercise remedies (including the right to declare or exercise remedies with respect to a Default or an Event of Default under the Lease and to repossess any property), to appoint any appraiser or to take any other action under or in respect of the Lease or accept any surrender or redelivery of the Equipment or parts as well as all the rights, powers and remedies on the part of the Borrower, whether arising under the Lease or by statute or at law or in equity or otherwise, as a result of any Default or Event of Default under the Lease, and

(c) all the Borrower's rights and interests in any sublease or assignment arrangement under the Lease, other than the assignment of the Equipment to Mabe, S.A., a Mexican company;

(3) All right, title, interest, claims and demands of the Borrower in, to and under any and all contracts, agreements and instruments relating to the Equipment or any rights or interests therein to which the Borrower is now or may hereafter be a party, together with all rights, powers, privileges, licenses, easements, options and other benefits of the Borrower under each contract, agreement and instrument referred to in this clause (3), including, without limitation, the right to receive and collect all payments to the Borrower thereunder now or hereafter payable to or receivable by the Borrower pursuant thereto and the right to make all waivers and agreements, to give and receive notices and other instruments or communications, or to take any other action under or in respect of any thereof or to take such action upon the occurrence of a default thereunder, including the commencement, conduct and consummation of legal, administrative or other proceedings, as shall be permitted thereby or by law, and to do any and all other things which the Borrower is or may be entitled to do thereunder and any right to restitution from the Lessee or any other Person in respect of any determination of invalidity of any thereof;

(4) All rents, issues, profits, revenues and other income of the property subjected or required to be subjected to the lien of this Security Agreement including all payments or proceeds payable to the Borrower after expiration or termination of the Lease with respect to the Equipment as the result of the sale, lease or other disposition thereof, and all estate, right, title and interest of every nature whatsoever of the Borrower in and to the same;

(5) Without limiting the generality of the foregoing, all insurance and requisition proceeds with respect to the Equipment or any part thereof, including but not limited to the insurance required under the Lease;

(6) Without limiting the generality of the foregoing, all monies and securities from time to time deposited or required to be deposited with the Lender pursuant to any terms of this Security Agreement or the Lease or required hereby or by the Lease to be held



by the Lender hereunder as security for the obligations of the Lessee under the Lease or of the Borrower hereunder or under the Loan Agreement; and

(7) the Collateral Account (as defined in the Loan Agreement) and all funds on deposit therein from time to time; and

(8) All Proceeds of the foregoing;

excluding, however, in all events from each of the foregoing paragraphs (1) through (7), all Excluded Payments, and the right to specifically enforce the same or to sue for damages for the breach thereof as provided in the definition of "Excluded Payments."

Concurrently with the delivery hereof, the Borrower is delivering to the Lender the original executed chattel paper counterpart of the Lease. In addition, for purposes of creating and perfecting for the Lender a first priority security interest in the Equipment under Mexican law, if and to the extent such law may be applicable to the transactions contemplated hereby, the Depositary is hereby appointed by the Lender and the Borrower as the depositary of the legal possession of the Equipment. The Depositary, in turn, hereby irrevocably accepts its appointment as depositary of the legal possession of the Equipment and expressly agrees that it will receive no payment for the performance of its duties hereunder. For purposes of creating and perfecting such first priority security interest in the Equipment in favor of the Lender, the Borrower hereby delivers legal possession of the Equipment to the Depositary and the Depositary hereby takes delivery of the legal possession of Equipment. The Depositary shall keep the legal possession of the Equipment for the benefit of the Lender, unless otherwise authorized in writing by the Lender; provided, however, that the Depositary shall, and is hereby expressly authorized to, allow the Borrower to make reasonable use of the Equipment in the ordinary course of business, including the lease of the Equipment to the Lessee under the terms of the Lease. Upon the demand of the Lender, the Depositary is hereby instructed immediately to deliver legal possession of the Equipment as instructed by the Lender. Such delivery shall occur immediately upon the Depositary's receipt of such demand. The Depositary assumes all obligations, duties and responsibilities as the depositary. The obligations, duties and responsibilities assumed by the Depositary are personal and inherent to the Depositary, and the Depositary may not be released of its obligations, duties and responsibilities without the express consent of the Lender.

TO HAVE AND TO HOLD all and singular the aforesaid property unto the Lender, and its successors and assigns, in trust for the equal and proportionate benefit and security of the holders, from time to time, of one or more Notes, without any preference, distinction or priority of any one Note over any other by reason of priority of time of issue, sale, negotiation, date of maturity thereof or otherwise for any reason whatsoever, and for the uses and purposes and in all cases and as to all property specified in paragraphs (1) through (8) inclusive above, subject to the terms and provisions set forth in this Security Agreement.

(b) Reserved Rights. Notwithstanding the provisions of clause (a) hereof, the following rights shall be reserved to the Borrower (as separate and independent rights) at all times, whether or not an Event of Default shall have occurred and be continuing, the Borrower shall have the right (together with and not to the exclusion of the Lender) (i) to receive from the

Lessee copies of all notices, certificates, reports, filings, opinions of counsel and other documents and all information which the Lessee is permitted or required to give or furnish to the Borrower pursuant to the Lease, (ii) to exercise inspection rights pursuant to the Lease, (iii) to provide or carry insurance in addition to that required to be carried by the Lessee pursuant to the Lease and (iv) to consent or to withhold consent to any amendment, modification or waiver of the provisions of the Lease in respect of Excluded Payments.

3. Limitations on Lender's Obligations. Anything herein to the contrary notwithstanding, the Borrower shall remain liable under each of the agreements pledged hereby to observe and perform all the conditions and obligations to be observed and performed by it thereunder, all in accordance with and pursuant to the terms and provisions of each such agreement, to the same extent as if this Security Agreement had not been executed. The Lender shall have no obligation or liability under any such agreement by reason of or arising out of this Agreement or the receipt by the Lender of any payment relating to such agreement pursuant hereto, nor shall the Lender be obligated in any manner to perform any of the obligations of the Borrower under or pursuant to any agreement, to make any payment, to make any inquiry as to the nature or the sufficiency of any payment received by it or as to the sufficiency of any performance by any party under any such agreement, to present or file any claim, to take any action to enforce any performance or to correct the payment of any amounts which may have been assigned to it or to which it may be entitled at any time or times.

4. Representations and Warranties. The Borrower hereby represents and warrants that:

(a) Title, No Other Security Interests. Except for the Security Interest granted to the Lender pursuant to this Security Agreement, the Borrower has not granted any Security Interest in, or other claims in respect of, the Collateral. No security agreement, financing statement or other public notice with respect to all or any part of the Collateral has been placed by the Borrower on file or of record in any public office, except such as may have been filed in favor of the Lender, pursuant to this Security Agreement.

(b) Perfected First Priority Security Interests. The Borrower will take such action as the Lender reasonably determines necessary in order to perfect a first priority Security Interest in the Collateral in favor of the Lender, including, without limitation, filings and registrations with the STB, the Mexican Rail Authority and the Canadian Rail Authority.

(c) Contracts. Other than consents obtained and delivered to the Lender pursuant to the Loan Agreement, to the Borrower's knowledge no consent of any party (other than the Borrower) to any agreement pledged hereby is required, or purports to be required, in connection with the execution, delivery and performance of this Security Agreement. Assuming the due authorization, execution and delivery by the other parties thereto, each agreement pledged hereby to which the Borrower is a party is in full force and effect and constitutes a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally. Other than the filing of this Security Agreement with the STB, the Mexican Rail Authority and the Canadian Rail Authority and certain filings to be made under the Code, no

consent or authorization of, filing with or other act by or in respect of any Governmental Authority applicable to it is required in connection with the execution, delivery and performance by the Borrower or the validity or enforceability against the Borrower of any of such agreements other than those which have been duly obtained, made or performed. Neither the Borrower nor (to the best of the Borrower's knowledge) any other party to any such agreement is in default in the performance or observance of any of the terms thereof. The Borrower has fully performed all of its obligations up to this date under each such agreement. To the best of the Borrower's knowledge, the right, title and interest of the Borrower in, to and under each such agreement are not subject to any defense, offset, counterclaim or claim which would materially and adversely affect the value of such agreement as Collateral, nor have any of the foregoing been asserted or alleged against the Borrower as to any such agreement. The Borrower has delivered to the Lender a complete and correct copy of each such agreement, including all amendments, supplements and other modifications thereto.

5. Covenants |HiddenPara|

The Borrower covenants and agrees with the Lender that, from and after the date of this Security Agreement until the Obligations are paid in full:

(a) Further Documentation: Pledge of Instruments and Chattel Paper. At any time and from time to time, upon the written request of the Lender, and at the sole expense of the Borrower, the Borrower will promptly and duly execute and deliver such further instruments and documents and take such further action as the Lender may reasonably request for the purpose of obtaining or preserving the full benefits of this Security Agreement and of the rights and powers herein granted, including, without limitation, the filing of any financing or continuation statements under the Code with respect to the Security Interests created hereby to the extent permitted by applicable law and other filings and registrations required under any comparable laws in any relevant jurisdictions. A photographic or other reproduction of this Security Agreement shall be sufficient as a financing statement for filing in any jurisdiction in the United States of America. If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any "instrument" or "chattel paper" (as such terms are defined under the Code), such instrument or chattel paper shall be immediately delivered to the Lender, duly endorsed in a manner satisfactory to the Lender, to be held as Collateral pursuant to this Security Agreement. The Borrower shall not assign, delegate, pledge, grant a Security Interest in or otherwise encumber any of its rights or obligations with respect to the Collateral.

(b) Indemnification. In any suit, proceeding or action brought by the Lender with respect to any of the Collateral for any sum owing thereunder, or to enforce any provisions of any contract pledged hereby, the Borrower will save, indemnify and keep the Lender harmless from and against all expenses (including, without limitation, reasonable attorneys' fees), losses or damages suffered by reason of any defense, setoff, counterclaim, recoupment or reduction or liability whatsoever of the account debtor or obligor thereunder, arising out of a breach by the Borrower of any obligation thereunder or arising out of any other agreement, indebtedness or liability at any time owing to or in favor of such account debtor or obligor or its successors from the Borrower ("Losses"), except Losses arising out of the willful misconduct or gross negligence by the Lender in the performance of its duties.

(c) Notices. The Borrower will advise the Lender promptly, in reasonable detail, at its address set forth in the Loan Agreement, of any Security Interest (other than Security Interests created hereby or permitted under the Loan Agreement) on, or claim asserted against, any of the Collateral of which it has knowledge.

(d) Pledge of Collateral. The Borrower hereby covenants that it shall not, so long as this Security Agreement shall remain in effect, assign, pledge, grant a Security Interest in or otherwise encumber, any of its right, title or interest with respect to the Collateral, to anyone other than the Lender, or delegate any of its obligations with respect to the Collateral, and that, except as expressly permitted hereby or by the Loan Agreement, it shall not, without the prior written consent of the Lender, enter into any agreement amending or supplementing the Lease, execute any waiver or modification of, or consent under, the terms of, or exercise any rights, powers or privileges under, the Lease, settle or compromise any claim arising under the Lease, or submit or consent to the submission of any dispute, difference or other matter arising under or in respect of the Lease to arbitration thereunder.

(e) Replacement Car. In the event of a replacement Car being substituted as specified in the Lease, the Borrower agrees for the benefit of the Lender, subject to fulfillment of the conditions precedent and compliance by the Lessee with its obligations set forth in the Lease, and the delivery to Lender of an opinion of the Borrower's counsel, in form and substance satisfactory to Lender, to the effect that the Lender's Security Interest in the replacement Car constitutes a first priority perfected Security Interest in such replacement Car, to execute and deliver the documents contemplated by the Lease and a supplement to this Security Agreement further subjecting such replacement Car to the lien of this Security Agreement.

(f) Effect of Replacement. In the event of the substitution of a replacement Car as contemplated by the Lease and paragraph (e) above, all provisions of this Security Agreement relating to the Car being replaced shall be applicable to such replacement Car with the same force and effect as if such replacement Car were the same as the Car being replaced, but for the Event of Loss with respect to the Car being replaced.

6. Lender's Appointment as Attorney-in-Fact.

(a) Powers. The Borrower hereby irrevocably constitutes and appoints the Lender and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Borrower

and in the name of the Borrower or in its own name, from time to time in the Lender's discretion, after the occurrence and during the continuance of an Event of Default, for the purpose of carrying out the terms of this Security Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Security Agreement, and, without limiting the generality of the foregoing, the Borrower hereby gives the Lender the power and right, on behalf of the Borrower, without notice to or assent by the Borrower, to do the following:

(i) in the case of any Collateral, at any time when any Event of Default shall have occurred and is continuing, in the name of the Borrower or its own name, or otherwise, to take possession of and endorse and collect any checks, drafts, notes, acceptances or other instruments for the payment of moneys due under any part of the Collateral or with respect to any other Collateral and to file any claim or to take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by the Lender for the purpose of collecting any and all such moneys due under any part of the Collateral or with respect to any other Collateral whenever payable:

(ii) at any time when any Default or Event of Default shall have occurred and is continuing, to pay or discharge taxes and Security Interests levied or placed on or threatened against the Collateral to the extent not timely paid or satisfied by the Borrower; and

(iii) upon the occurrence and during the continuance of any Event of Default (A) to direct any party liable for any payment under any of the Collateral to make payment of any and all moneys due or to become due thereunder directly to the Lender or as the Lender shall direct; (B) to amend any of the documents constituting part of the Collateral; (C) to ask or demand for, correct, receive payment of and receipt for, any and all moneys, claims and other amounts due or to become due at any time in respect of or arising out of any Collateral; (D) to commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any thereof and to enforce any other right in respect of any Collateral; (E) to defend any suit, action or proceeding brought against the Borrower with respect to any Collateral; (F) to settle, compromise or adjust any suit, action or proceeding described in clause (E) above and, in connection therewith, to give such discharges or releases as the Lender may deem appropriate; and (G) generally, to sell, transfer, pledge and make any agreement with respect to or otherwise deal with any of the Collateral (including a conveyance of any or all of the Collateral to the Lender) as fully and completely as though the Lender were the absolute owner thereof for all purposes, and to do, at the Lender's option and the Borrower's expense, at any time, or from time to time, all acts and things which the Lender deems necessary to protect, preserve or realize upon the Collateral (including, without limitation, to perform, or cause to be performed, all or any part of the obligations and agreements of the Borrower under the Lease, without releasing the Borrower therefrom) and the Lender's Security Interests thereon and to effect the intent of this Security Agreement, all as fully and effectively as the Borrower might do and subject to the standard of care set forth in Section 10 hereof.

This power of attorney is a power coupled with an interest and shall be irrevocable.

(b) Other Powers. The Borrower also authorizes the Lender, at any time and from time to time, to execute, in connection with the sale provided for in Section 9 hereof, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral.

(c) No Duty on Lender's Part. The powers conferred on the Lender hereunder are solely to protect the Lender's interests in the Collateral and shall not impose any duty upon the Lender to exercise any such powers. The Lender shall be accountable only for amounts that it actually receives as a result of the exercise of such powers, and neither it nor any of its officers, directors, employees or agents shall be responsible to the Borrower for any act or failure to act hereunder, except for its own gross negligence or willful misconduct.

7. Performance by Lender of Borrower's Obligations. If the Borrower fails to perform or comply with any of its agreements contained herein and the Lender, as provided for by the terms of this Security Agreement, shall itself perform or comply, or otherwise cause performance or compliance, with such agreement, the expenses of the Lender incurred in connection with such performance or compliance, together with interest thereon at the Default Rate, shall be payable by the Borrower to the Lender on demand and shall constitute Obligations secured hereby.

8. Proceeds. It is agreed that if an Event of Default shall occur and be continuing (a) all proceeds received by the Borrower consisting of cash, checks and other property shall be held by the Borrower in trust for the Lender, segregated from other funds of the Borrower, and shall, forthwith upon receipt by the Borrower, be turned over to the Lender in the exact form received by the Borrower (duly endorsed by the Borrower to the Lender, if required), and (b) any and all such proceeds received by the Lender (whether from the Borrower or otherwise) may, in the sole discretion of the Lender, be held by the Lender as collateral security for, and/or then or at any time thereafter may be applied by the Lender against, the Obligations (whether matured or unmatured) in accordance with the provisions of the Loan Agreement.

9. Remedies. Subject to the provisions of Sections 6.2 (Borrower's Cure Rights), 6.5 (Purchase of Notes) and 8 (No Action Contrary to Lease Terms) of the Loan Agreement, if an Event of Default shall occur and be continuing, the Lender may exercise, in addition to all other rights and remedies granted to it in this Security Agreement and in any other instrument or agreement securing, evidencing or relating to the Obligations, all rights and remedies of a secured party under the Code or any comparable or applicable laws in any other relevant jurisdictions. Without limiting the generality of the foregoing, the Lender, without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below) to or upon the Borrower or any other Person (all and each of which demands, defenses, advertisements and notices the Borrower hereby waives), may in such circumstances forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, including, without limitation entering upon the premises where all or any part of the Collateral is located and taking immediate possession of and removing the same by summary proceedings or otherwise (and/or, at Lender's option, storing the same (at the Borrower's expense) until disposal thereof by Lender), all without liability accruing to Lender, and/or may forthwith sell, lease, amend, assign, give option or options to purchase, or otherwise dispose of and deliver the Collateral or any part thereof (or contract to do any of the

foregoing), in one or more parcels at public or private sale or sales, at any exchange, broker's board or office of the lender or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. The Lender shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption in the Borrower, which right or equity is hereby waived or released (provided, however, that nothing contained herein shall be deemed to negate any rights of the Borrower to recover the amount of the proceeds of any such sale which exceed the sum of (i) all amounts due and owing to the Lender under the Loan Agreement and the Notes and (ii) all of the Lender's costs and expenses incurred in connection with the Lender's exercise of its remedies hereunder and thereunder). The Borrower further agrees, at the Lender's request, to assemble the Collateral and make it available to the Lender at places which the Lender shall reasonably select, whether at the Borrower's premises or elsewhere. To the extent permitted by applicable law, the Borrower waives all claims, damages and demands it may acquire against the Lender arising out of its exercise of any rights hereunder, excluding claims, damages and demands resulting from the gross negligence or willful misconduct of the Lender or the Lender's failure to conduct a commercially reasonable sale. If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given, and the Lender agrees to give such notice to the Borrower in any event, at least 10 days before such sale or other disposition.

10. Limitation on Duties Regarding Preservation of Collateral. The Lender's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession, under Section 9-207 of the Code or otherwise, shall be to deal with it in the same manner as the Lender deals with similar property for its own account. Neither the Lender nor any of its directors, officers, employees or agents shall be liable for failure to demand, collect or realize upon all or any part of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of the Borrower or otherwise.

11. Powers Coupled with an Interest. All authorizations and agencies herein contained with respect to the Collateral are irrevocable and powers coupled with an interest.

12. Severability. Any provision of this Security Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

13. Section Headings. The section headings used in this Security Agreement are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

14. No Waiver, Cumulative Remedies. The Lender shall not by any act (except by a written instrument pursuant to Section 15 hereof), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any

Default or Event of Default or in any breach of any of the terms and conditions hereof. No failure to exercise, nor any delay in exercising, on the part of the Lender, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by the Lender of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which the Lender would otherwise have on any future occasion. The rights and remedies herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any rights or remedies provided by law.

15. Waivers and Amendments, Successors and Assigns, Governing Law.

None of the terms or provisions of this Security Agreement may be waived, amended, supplemented or otherwise modified except by a written instrument executed by the Borrower and the Lender, provided that any provision of this Security Agreement may be waived by the Lender in a written letter or agreement executed by the Lender or by telex or facsimile transmission from the Lender. This Security Agreement shall be binding upon the successors and permitted assigns of the Borrower and shall inure to the benefit of the Lender and its successors and permitted assigns. EXCEPT AS EXPRESSLY PROVIDED BELOW IN THIS SECTION 15, TO THE MAXIMUM EXTENT PERMITTED BY THE LAWS OF THE STATE OF NEW YORK, THIS SECURITY AGREEMENT, AND THE RIGHTS AND DUTIES OF THE PARTIES HEREUNDER, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (INCLUDING SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW) IN ALL RESPECTS, INCLUDING IN RESPECT OF ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE BUT WITHOUT GIVING EFFECT TO ANY PROVISION THEREOF THAT MAY REQUIRE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION. EXCEPT AS EXPRESSLY PROVIDED BELOW IN THIS SECTION 15, THE BORROWER HEREBY IRREVOCABLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND THE SUPREME COURT OF THE STATE OF NEW YORK IN THE COUNTY OF NEW YORK IN ANY ACTION, SUIT OR PROCEEDING BROUGHT AGAINST IT AND RELATED TO OR IN CONNECTION WITH THIS SECURITY AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY, AND TO THE EXTENT PERMITTED BY APPLICABLE LAW, THE BORROWER HEREBY WAIVES AND AGREES NOT TO ASSERT BY WAY OF MOTION, AS A DEFENSE OR OTHERWISE IN ANY SUCH SUIT, ACTION OR PROCEEDING, ANY CLAIM THAT IT IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF SUCH COURT, THAT THE SUIT, ACTION OR PROCEEDING IS BROUGHT IN AN INCONVENIENT FORUM, THAT THE VENUE OF THE SUIT, ACTION OR PROCEEDING IS IMPROPER, OR THAT THIS SECURITY AGREEMENT OR ANY DOCUMENT OR ANY INSTRUMENT REFERRED TO HEREIN OR THE SUBJECT MATTER HEREOF MAY NOT BE LITIGATED IN OR BY SUCH COURT. TO THE EXTENT PERMITTED BY APPLICABLE LAW, THE BORROWER AGREES NOT TO SEEK AND HEREBY WAIVES THE RIGHT TO ANY REVIEW OF THE JUDGMENT OF ANY SUCH COURT BY ANY COURT OF ANY OTHER NATION OR JURISDICTION WHICH MAY BE CALLED UPON TO GRANT AN ENFORCEMENT OF SUCH JUDGMENT. THE BORROWER AGREES THAT SERVICE OF PROCESS MAY BE MADE UPON IT BY CERTIFIED OR



REGISTERED MAIL TO THE ADDRESS FOR NOTICES SET FORTH IN THIS SECURITY AGREEMENT OR ANY METHOD AUTHORIZED BY THE LAWS OF NEW YORK. NOTWITHSTANDING THE FOREGOING, THE PARTIES HEREBY AGREE THAT ANY ACTION OR PROCEEDING WITH RESPECT TO THIS SECURITY AGREEMENT, IN CONNECTION WITH THE LENDER'S RIGHTS AND REMEDIES AS TO THAT PORTION OF THE EQUIPMENT LOCATED IN THE UNITED MEXICAN STATES, MAY BE BROUGHT BEFORE A MEXICAN COURT FOR SUCH PURPOSES, THE PARTIES HEREBY IRREVOCABLY SUBMIT TO THE JURISDICTION OF THE COMPETENT COURTS OF MEXICO CITY, FEDERAL DISTRICT, UNITED MEXICAN STATES, AND EXPRESSLY WAIVE ANY OTHER JURISDICTION AS TO SUCH ACTION OR PROCEEDING THEY MAY BE ENTITLED TO BY REASON OF THEIR PRESENT OR FUTURE DOMICILES. AS TO SUCH ACTION OR PROCEEDING, THIS SECURITY AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE UNITED MEXICAN STATES. EACH PARTY HERETO KNOWINGLY, VOLUNTARILY AND EXPRESSLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ENFORCING OR DEFENDING ANY RIGHTS ARISING OUT OF OR RELATING TO THIS SECURITY AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. EACH PARTY HERETO ACKNOWLEDGES THAT THE PROVISIONS OF THIS SECTION HAVE BEEN BARGAINED FOR AND THAT IT HAS BEEN REPRESENTED BY COUNSEL IN CONNECTION HEREWITH.

16. Incorporation by Reference. Section 6.2 ("Borrower Cure Rights"), as such Section is set forth in the Loan Agreement, is hereby incorporated herein by reference and made a part hereof.

17. Notices. All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing and sent by personal delivery, overnight courier or telecopy (any such telecopied notice to be followed within 24 hours by written notice by personal delivery or reputable overnight courier), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made upon receipt thereof, addressed as follows, or to such other address as may be hereafter notified by the respective parties hereto and any future holders of the Notes:

The Borrower:                      Flex Mexico Corp.  
234 Front Street, Suite 300  
San Francisco, CA 94111  
Attn: President  
Fax: (415) 982-3543

The Lender:                         BTM Capital Corporation  
125 Summer Street, 5<sup>th</sup> Floor  
Boston, MA 02110  
Attn: Senior Vice President - Administration  
Fax: (617) 345-1444

The Depositary:                    Flex Leasing Corporation  
234 Front Street, Suite 300

San Francisco, CA 94111  
Attn: President  
Fax: (415) 982-3543

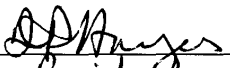
18. Possession of Collateral. Except as expressly provided otherwise in this Security Agreement, so long as no Event of Default has occurred and is continuing, the Borrower shall be suffered and permitted to remain in full possession, enjoyment and control of the Collateral and to manage, operate and use the same and each part thereof with the rights and franchises appertaining thereto; provided, always, that the possession, enjoyment, control and use thereof shall at all times be subject to the observance and performance of the terms of this Security Agreement.

19. Present Assignment. The assignment effected by Section 2 hereof is a present assignment and shall be effective, and the Security Interest created thereby shall attach, immediately upon execution of this Security Agreement and the advance of funds under the Loan Agreement and shall not be conditioned upon the occurrence of a Default or Event of Default.

*[Remainder of This Page Intentionally Left Blank]*

IN WITNESS WHEREOF, the Borrower has caused this Security Agreement to be duly executed and delivered as of the date first above written.

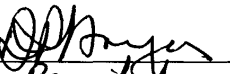
FLEX MEXICO CORP., as Borrower

By:   
Title: President

BTM CAPITAL CORPORATION, as Lender

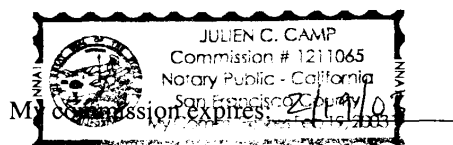
By: \_\_\_\_\_  
Title: \_\_\_\_\_

FLEX LEASING CORPORATION, as Depositary

By:   
Title: President

STATE OF CALIFORNIA )  
 ) ss.  
COUNTY OF SAN FRANCISCO )

On this 21<sup>ST</sup> day of DECEMBER, 2000, before me personally appeared DESMOND P. HAYES, to me personally known, who being by me duly sworn, says that s/he is the PRESIDENT of Flex Mexico Corp., that the foregoing instrument was signed on behalf of said Flex Mexico Corp., and acknowledged that the execution of the said instrument was his or her own free act and deed.



J.C. Camp  
NOTARY PUBLIC

COMMONWEALTH OF MASSACHUSETTS )  
 ) ss.  
COUNTY OF SUFFOLK )

On this \_\_\_\_ day of \_\_\_\_\_, 2000, before me personally appeared \_\_\_\_\_, to me personally known, who being by me duly sworn, says that s/he is a \_\_\_\_\_ of BTM Capital Corporation, that the foregoing instrument was signed on behalf of said \_\_\_\_\_, and acknowledged that the execution of the said instrument was his or her own free act and deed.

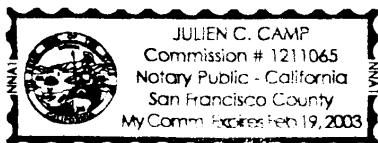
\_\_\_\_\_  
NOTARY PUBLIC

My commission expires: \_\_\_\_\_

STATE OF CALIFORNIA )  
 ) ss.  
COUNTY OF SAN FRANCISCO )

On this 21<sup>ST</sup> day of DECEMBER, 2000, before me personally appeared DESMOND P. HAYES, to me personally known, who being by me duly sworn, says that s/he is the PRESIDENT of Flex Leasing Corporation, that the foregoing instrument was signed on behalf of said Flex Leasing Corporation, and acknowledged that the execution of the said instrument was his or her own free act and deed.

My commission expires: 2/19/03



J.C. Camp  
NOTARY PUBLIC

IN WITNESS WHEREOF, the Borrower has caused this Security Agreement to be duly executed and delivered as of the date first above written.

FLEX MEXICO CORP., as Borrower

By: \_\_\_\_\_  
Title: \_\_\_\_\_

BTM CAPITAL CORPORATION, as Lender

By: *Ivory P. Tang*  
Title: Executive Vice President

FLEX LEASING CORPORATION, as Depositary

By: \_\_\_\_\_  
Title: \_\_\_\_\_

STATE OF CALIFORNIA           )  
  ) ss.  
COUNTY OF SAN FRANCISCO    )

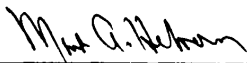
On this \_\_\_\_ day of \_\_\_\_\_, 2000, before me personally appeared \_\_\_\_\_, to me personally known, who being by me duly sworn, says that s/he is the \_\_\_\_\_ of Flex Mexico Corp., that the foregoing instrument was signed on behalf of said \_\_\_\_\_, and acknowledged that the execution of the said instrument was his or her own free act and deed.

\_\_\_\_\_  
NOTARY PUBLIC

My commission expires: \_\_\_\_\_

COMMONWEALTH OF MASSACHUSETTS    )  
  ) ss.  
COUNTY OF SUFFOLK                    )

On this 19<sup>th</sup> day of December, 2000, before me personally appeared Rory P. Laughna, to me personally known, who being by me duly sworn, says that s/he is an Executive Vice President of BTM Capital Corporation, that the foregoing instrument was signed on behalf of said corporation, and acknowledged that the execution of the said instrument was his or her own free act and deed.

  
\_\_\_\_\_  
NOTARY PUBLIC   Mark A. Helman

My commission expires: June 16, 2006

STATE OF CALIFORNIA           )  
  ) ss.  
COUNTY OF SAN FRANCISCO    )

On this \_\_\_\_ day of \_\_\_\_\_, 2000, before me personally appeared \_\_\_\_\_, to me personally known, who being by me duly sworn, says that s/he is the \_\_\_\_\_ of Flex Leasing Corporation, that the foregoing instrument was signed on behalf of said \_\_\_\_\_, and acknowledged that the execution of the said instrument was his or her own free act and deed.

\_\_\_\_\_  
NOTARY PUBLIC

My commission expires: \_\_\_\_\_